

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-01 INR-05 L-01

NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-04 FRB-01 TRSE-00 XMB-02

OPIC-06 CIEP-01 LAB-01 SIL-01 OMB-01 DRC-01 /077 W

----- 129596

R 151842Z OCT 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 4785

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY THE HAGUE

AMEMBASSY LUXEMBOURG

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E.O. 11652: N/A

TAGS: PINT, ELAB, UK

SUBJECT: WILSON SAYS: HONOR THE CONTRACT IN THE SPIRIT
AND IN THE LETTER

BEGIN SUMMARY: IN HIS FIRST POST-ELECTION SPEECH WHEN
PRIME MINISTER WILSON DECLARED THAT IT WAS VITALLY
NECESSARY FOR THE SOCIAL CONTRACT TO BE HONORED "IN THE
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SPIRIT AND THE LETTER" (SEPTTEL) HE WAS CLEARLY WARNING

THE TRADE UNIONS AND "ROGUE" EMPLOYERS THAT THE GOVERNMENT WOULD USE ITS POWERS TO KEEP BOTH SIDES OF INDUSTRY IN LINE WITH THE TUC WAGE GUIDELINES -- A BASIC ESSENTIAL OF THE SOCIAL CONTRACT. HOWEVER, CERTAIN WEAKNESSES OF THE CONTRACT HAVE ALREADY BEEN DEMONSTRATED BY THE EROSION OF SOME OF ITS KEY PROVISIONS. MOREOVER, WAGE CLAIMS ALREADY IN THE PIPELINE ARE EXPECTED TO GIVE THAT FAMOUS DOCUMENT THE ACID TEST, WITH POSSIBLY DEVASTATING RESULTS. THE CENTRAL QUESTION THEN WILL BECOME: WHAT WEAPON -- IF NOT A WAGE FREEZE -- LIES READY AT WILSON'S HAND TO CONTROL THE INFLATIONARY FIRES? END SUMMARY

1. IN HIS ADDRESS LAST NIGHT, THE PRIME MINISTER HAD ALSO STATED: "... WE HAVE ALL AGREED THAT WE CANNOT LOOK FORWARD OVER THE NEXT TWO YEARS OR MORE TO ANY GENERAL INCREASE IN LIVING STANDARDS." (AT THE BRIGHTON TUC CONGRESS, HE WAS EVEN MORE GLOOMY, BUT NO ONE SEEMED TO NOTICE IN THE GENERAL EUPHORIA OF THAT MEETING WHEN HE ADDED: "IT WILL BE A TREMENDOUS CHALLENGE TO OUR STATEMANSHIP TO EVEN MAINTAIN AVERAGE LIVING STANDARDS.") LAST NIGHT, WILSON ADDED: "THERE CAN BE NO OPTING OUT. THAT IS WHAT THE SOCIAL CONTRACT IS ABOUT, AND IT IS GOING TO BE MORE VITALLY NECESSARY THAN EVER IN THESE MONTHS AND YEARS AHEAD THAT THAT CONTRACT BE HONORED IN THE SPIRIT AND THE LETTER."

2. THESE WERE TOUGH WORDS, INDEED, BUT THEY WOULD SEEM TO FORESHADOW A RENEWAL OF THE TENSION BETWEEN THE TRADE UNIONS AND THE GOVERNMENT WHICH HAVE CHARACTERIZED PREVIOUS PERIODS IN RECENT HISTORY. IN A PERCEPTIVE ARTICLE IN THE FINANCIAL TIMES ON OCTOBER 14, JOHN ELLIOTT DETAILS THE INEXORABLE WAGE PRESSURES WHICH ARE PRESSING AGAINST AND FREQUENTLY BREACHING THE TUC'S OWN GUIDELINES. ELLIOTT STATES THAT "A SPATE OF ACTIVITY IS NOW BREAKING OUT ON THE WAGES FRONT" AND HE PREDICTS "A GENERAL UPWARD MOVEMENT OF WAGES AT AN ANNUAL RATE APPROACHING AT LEAST 25 PERCENT -- INCLUDING WAGE DRIFT -- BY THE BEGINNING OF NEXT YEAR." ELLIOTT ADDS THAT "THE PROBLEM ABOUT GUIDELINES" IS THAT THEY ARE CONSTANTLY BEING BROKEN, ESPECIALLY IN THE PRIVATE SECTOR--WITH LIMITED OFFICIAL USE

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EMPLOYERS BREACHING THE STRICTURE ABOUT 12 MONTHS INTERVALS BETWEEN WAGE AGREEMENTS (AS IN THE FORD CASE) AND WITH "ANY GROUP OF WORKERS ABLE TO WRING A GOOD 20 PERCENT OUT OF THEM."

3. MOREOVER, HE NOTES A CONTINUING TREND -- CONTRARY TO THE GUIDELINES -- FOR SETTLEMENTS TO INCLUDE CLAUSES TO CATCH UP WITH PAST AND FUTURE INCREASES IN THE COST OF

LIVING IN ONE FELL SWOOP. HE ALSO NOTES THAT THE TUC HAS NOW RAISED ITS MINIMUM WAGE SIGHTS FROM 25 POUNDS TO 30 POUNDS, WHICH WHILE PERHAPS "NOT ALL THAT COSTLY IN THEMSELVES" TEND TO PUSH UP DIFFERENTIALS AND ADD GENERALLY TO THE UPWARD PRESSURE ON WAGES. (ELLIOTT THEN REVIEWS THE FORMIDABLE LINE-UP OF MAJOR CLAIMS NOW IN THE PIPELINE, RANGING FROM SMALL GROUPS SUCH AS 5,000 TRUCK DRIVERS IN SCOTLAND WHO ARE SEEKING A 44 PERCENT WAGE INCREASE TO 1,500,000 ENGINEERING WORKERS WHO WILL PRESENT THEIR CLAIM NEXT MONTH. WHILE NOT ALL OF THESE CLAIMS GO BEYOND THE LIMITS OF THE TUC'S GUIDELINES, MANY OF THEM DO.)

4. THESE PRESSURES ARE OF COURSE NOT SURPRISING. DESPITE

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THE FINE PRINT OF THE SOCIAL CONTRACT (THAT IS, THE
TUC'S VERSION AS EMBODIED IN THE WAGE GUIDELINES), THE
TUC'S INDIVIDUAL AFFILIATES ARE, IN GENERAL, BROAD
CONSTRUCTIONISTS. FOR THE MOST PART THEY ARE INTERPRET-
ING THE CONTRACT TO MEAN THAT THEY SHOULD BE ABLE NOT ONLY
TO CHASE THE COST OF LIVING BUT TO CATCH UP WITH IT --
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A VERY REASONABLE AIM IN NORMAL TIMES. THESE UNIONS OF
COURSE MUST FREQUENTLY RESPOND TO PRESSURE FROM BELOW,
AND IN THE END THE TUC MAY BE FORCED TO LOOK AT ITS WAGE
GUIDELINES IN THE SAME BROAD WAY AS SOME OF ITS AFFILIA-
TES ARE NOW DOING. AS FOR THE EMPLOYERS, MANY OF THEM
WHO ARE ANXIOUS TO KEEP PRODUCTION LINES GOING - AS WITH
FORD - WILL ACCEPT THE SAME PERSPECTIVE AS THE UNIONS IN
THEIR PLANTS.

5. NO DOUBT THE GOVERNMENT WILL BE DOING A GREAT AMOUNT
OF JAW-BONING, SUCH AS AT THE PRIME MINISTER'S MEETING
LATER TODAY WITH THE TUC AND CBI LEADERSHIP. BUT ONE
DOES NOT HAVE TO BE OVERLY PRESCIENT TO FORESEE CONSIDER-
ABLE CONTRADICTIONS DEVELOPING BETWEEN THE "LETTER" OF
THE PRIME MINISTER'S WARNING AND THE ACTUALITY. HE WILL
UNDOUBTEDLY MAKE A STRONG ATTEMPT TO GET THE TUC -- WITH
THE CBI'S COLLABORATION -- TO TIGHTEN UP THE LOOSE ENDS
OF THE SOCIAL CONTRACT. BUT IF HE FAILS TO DO SO, HE
MAY VERY WELL HAVE TO DUST OFF THAT NASTY WEAPON -- THE
WAGE FREEZE -- WHICH LIES IN THE BACK OF HIS CLOSET, OR
AT LEAST FIND SOME ALTERNATIVE POLICY WHICH WOULD LEAD
TO THE SAME END - DAMPENING DOWN INFLATION.

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